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CANADA MALTING CO.
LIMITED



ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 1974

CANADA MALTING CO., LIMITED

Board of Directors

DOUGLAS W. AMBRIDGE, C.B.E., B.Sc.	W. DOUGLAS HATCH
NIGEL B. BAIRD	WILLIAM G. C. HOWLAND, Q.C., LL.D.
STANTON J. BURKETT	LEONARD G. LUMBERS
BRUCE M. COHOE	GEORGE H. SELLERS
HARRY F. GRAESSER	REGINALD J. THOMAS

Honorary Director

GORDON McMILLAN, Q.C.

Officers

HARRY F. GRAESSER	PRESIDENT AND CHIEF EXECUTIVE OFFICER
REGINALD J. THOMAS	VICE-PRESIDENT FINANCE AND SECRETARY
STANTON J. BURKETT	VICE-PRESIDENT SALES
GORDON J. CATER	TREASURER

Head Office

TORONTO - ONTARIO

Malthouses and Elevators

MONTREAL, QUEBEC	- -	WINNIPEG, MANITOBA
TORONTO, ONTARIO	- -	CALGARY, ALBERTA
THUNDER BAY, ONTARIO		

Transfer Agent

CANADA PERMANENT TRUST COMPANY
TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

Registrar

MONTREAL TRUST COMPANY
TORONTO, ONTARIO - - MONTREAL, QUEBEC
CALGARY, ALBERTA

REPORT OF THE DIRECTORS TO THE SHAREHOLDERS
FOR THE FISCAL YEAR ENDED DECEMBER 31, 1974

During the past year record sales and earnings were achieved by your Company. Key factors in the improved earnings were better profit margins in the export trade and high utilization of plant capacity. Barley prices continued to escalate and this is reflected in the increased dollar sales figure and higher bank loans.

Consolidated earnings from operations for the twelve months ended December 31 amounted to \$3,808,733, compared with \$3,193,392 a year ago. Net earnings of \$4,157,741, equivalent to \$4.81 per share, include interest income of \$326,000, attributable to the interim payment received in 1973 as compensation for the expropriated Toronto, Bathurst Street, property. In comparison, net earnings in 1973 before an extraordinary item were \$3,279,485, equivalent to \$3.60 per share after allowing for preferred dividends applicable to the period.

Meetings have been held with Government authorities to discuss problems arising from expropriation of the Toronto, Bathurst Street, property and, since negotiations are continuing, we have nothing further to report at the present time. Early in 1974 an option was taken on a parcel of land near Barrie, but this was allowed to expire when studies showed that plant relocation on this site was uneconomical based on today's construction costs.

As previously reported, our associate company, Hugh Baird & Sons Limited, showed much improved earnings during their year ended July 31, 1974, and it is expected that this trend will continue through 1975. An expansion of the malting plant in Scotland is presently under way and it is expected that the additional capacity will be available towards the end of this year.

Earnings of our subsidiary, Leaver Mushrooms Co. Limited, were lower as production costs continued to rise and, due to competition from imports, we were unable to obtain a compensating price increase.

Consolidated capital expenditures totalled \$3,925,413. These include expenditures for the additional malting and storage facilities at Calgary and improvements at our mushroom plants. Capital expenditures for 1975 include approximately \$600,000 still outstanding on the Calgary storage.

With regret, the Board accepted the resignations of Mr. Douglas W. Ambridge, C.B.E., B.Sc., and Mr. W. G. C. Howland, Q.C. Mr. Ambridge has been a Director of your Company for seventeen years and, in order to retain the benefit of his broad experience and in recognition of the valuable contribution he has made to the Company, the Board has appointed him an Honorary Director. Mr. Howland has accepted an appointment to the Court of Appeal of Ontario and, for this reason, was obliged to relinquish his directorship. His counsel will be greatly missed and we wish him every success in his new field. The two vacancies thus created have been filled by the appointment of Mr. R. J. D. Martin, of Montreal, Quebec, and Mr. W. F. Read, of London, Ontario, who, we are sure, will make a most valuable contribution to the Company.

Your directors are pleased to record their appreciation of the loyal support and cooperation of all employees during the year under review.

On behalf of the Directors,

HARRY F. GRAESSER,
President.

*has 50% of
Hugh Baird
dividend freeze
in Britain cannot
get dividends out*

*Increase of
10-15% in capacity*

CANADA MALTING CO., LIMITED

and subsidiary company

364-5228

CONSOLIDATED STATEMENT OF EARNINGS

	<u>Year ended December 31</u>	
	<u>1974</u>	<u>1973</u>
Net sales.	\$105,948,482	\$ 63,365,732
Costs and expenses:		
Cost of products sold and all expenses except items shown below	93,853,546	54,186,081
Interest on long term debt	83,250	82,323
Bank and other interest (Note 7)	2,992,089	1,087,143
Provision for depreciation	1,998,166	1,898,765
Amortization of leasehold interests	51,698	33,028
Provision for income taxes	3,161,000	2,888,000
	<u>102,139,749</u>	<u>60,175,340</u>
Earnings from operations	3,808,733	3,190,392
Dividends received (Note 2)	65,305	66,662
Interest income, less income taxes of 1974 - \$252,000; 1973 - \$64,000 (Note 7)	326,000	89,000
Earnings before minority interest and extraordinary item	4,200,038	3,346,054
Minority interest in earnings of subsidiary	42,297	66,569
	<u>4,157,741</u>	<u>3,279,485</u>
Gain on expropriation of property, less estimated income taxes of \$450,000 (Note 6)	<u>—</u>	<u>2,873,020</u>
Net earnings for the year	<u>\$ 4,157,741</u>	<u>\$ 6,152,505</u>
Earnings per share after preferred dividends:		
Before extraordinary item	\$4.81	\$3.60
Extraordinary item	<u>—</u>	<u>3.33</u>
	<u>\$4.81</u>	<u>\$6.93</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	<u>Year ended December 31</u>	
	<u>1974</u>	<u>1973</u>
Balance at beginning of year	\$ 17,731,766	\$ 12,913,420
Net earnings for the year	<u>4,157,741</u>	<u>6,152,505</u>
	<u>21,889,507</u>	<u>19,065,925</u>
DEDUCT:		
Dividends on Series B preferred shares	—	167,910
Dividends on common shares:		
Former common shares (1973 - 65¢ per share)	—	561,527
Class A shares (1974 - \$1.40 per share; 1973 - 70¢ per share)	1,058,617	533,856
Class B shares (1974 - \$1.19 per share; 1973 - 59.5¢ per share)	128,201	60,236
Tax paid on undistributed income	22,624	10,630
	<u>1,209,442</u>	<u>1,334,159</u>
Balance at end of year	<u>\$ 20,680,065</u>	<u>\$ 17,731,766</u>

ASSETS

	December 31	
	1974	1973
CURRENT ASSETS:		
Cash	\$ 44,963	\$ 318,263
Short term investments, at cost which approximates market	—	300,000
Accounts receivable	10,604,730	9,635,309
Inventories —		
Barley and malt	38,888,737	33,760,746
Operating supplies	571,278	392,122
Prepaid expenses	203,241	164,080
	50,312,949	44,570,520
OTHER ASSETS:		
Investment in shares of Hugh Baird & Sons, Limited (Note 2)	2,499,484	2,499,484
Grain Exchange Seats and Memberships in Clearing Association, less amounts written off	<u>1</u>	<u>1</u>
	2,499,485	2,499,485
FIXED ASSETS:		
Buildings, plant and equipment	48,943,923	44,985,523
Less: Accumulated depreciation	<u>20,877,198</u>	<u>18,992,692</u>
	28,066,725	25,992,831
Land	1,763,844	1,709,991
Leasehold interests, less amortization	<u>—</u>	<u>51,698</u>
	29,830,569	27,754,520
Approved on behalf of the Board:		
HARRY F. GRAESSER, <i>Director</i>		
REGINALD J. THOMAS, <i>Director</i>		
	<u>\$82,643,003</u>	<u>\$74,824,525</u>

CO., LIMITED

company

BALANCE SHEET

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31	
	1974	1973
CURRENT LIABILITIES:		
Bank advances and bankers' acceptances (Note 3)	\$27,447,775	\$23,751,032
Accounts payable and accrued	7,091,970	7,388,771
Long term debt payable within one year	200,000	100,000
Taxes on income	<u>1,121,518</u>	<u>490,578</u>
	35,861,263	31,730,381
LONG TERM DEBT OF SUBSIDIARY:		
8% First mortgage debentures payable \$100,000 annually 1976 to 1983	800,000	900,000
9% First mortgage payable in 1976	100,000	—
DEFERRED EXPROPRIATION COMPENSATION (Note 6)	705,000	705,000
DEFERRED INCOME TAXES	3,360,300	2,663,300
MINORITY INTEREST IN SUBSIDIARY	1,208,034	1,165,737
SHAREHOLDERS' EQUITY:		
Capital stock —		
Authorized —		
Preferred shares of a par value of \$1 each,		
issuable in series	7,761,206 shares	
Common shares without nominal or par value		
Class A	2,000,000 shares	
Class B	1,500,000 shares	
Issued and outstanding —		
Common shares (Note 4)		
Class A	766,155 shares	
Class B	<u>97,733 shares</u>	
	863,888 shares	
Retained earnings (Note 5)	<u>20,680,065</u>	<u>17,731,766</u>
	25,779,730	22,831,431
Excess of appraisal value of fixed assets over depreciated book value on		
February 28, 1955	<u>14,828,676</u>	<u>14,828,676</u>
	40,608,406	37,660,107
	<u><u>\$82,643,003</u></u>	<u><u>\$74,824,525</u></u>

CANADA MALTING CO., LIMITED

and subsidiary company

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	<u>Year ended December 31</u>	
	<u>1974</u>	<u>1973</u>
Source of working capital:		
Earnings before extraordinary item	\$ 4,157,741	\$ 3,279,485
Non-cash charges deducted in arriving at earnings —		
Provision for depreciation	1,998,166	1,898,765
Amortization of leasehold interests	51,698	33,028
Deferred income taxes	697,000	831,000
Minority interest in earnings of subsidiary	42,297	66,569
Funds provided from operations	6,946,902	6,108,847
Interim payment on compensation for expropriation of Toronto Bathurst Street property (Note 6)	—	5,405,000
	<u>6,946,902</u>	<u>11,513,847</u>
Use of working capital:		
Additions to fixed assets, less mortgage of \$200,000 assumed by subsidiary	3,925,913	4,557,595
Dividends on common shares	1,186,818	1,155,619
Tax paid on undistributed income	22,624	10,630
Reduction of long term debt	200,000	100,000
Redemption of Series B preferred shares	—	2,238,794
Dividends on Series B preferred shares	—	167,910
	<u>5,335,355</u>	<u>8,230,548</u>
Resulting in an increase in working capital of	1,611,547	3,283,299
Working capital at beginning of year	<u>12,840,139</u>	<u>9,556,840</u>
Working capital at end of year	<u>\$14,451,686</u>	<u>\$12,840,139</u>

FIVE YEAR EARNINGS

	<u>Net Earnings</u>	<u>Earnings per Common Share</u>
1970	2,107,042	2.28*
1971	2,630,422	2.89*
1972	2,835,768	3.13*
1973	3,279,485	3.60*†
1974	4,157,741	4.81

*After providing for dividends on preferred shares.

†Excluding extraordinary item.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 1974

1. SUMMARY OF ACCOUNTING POLICIES:

(a) Principles of consolidation –

The consolidated financial statements include the accounts of the Company and its 60% owned subsidiary, Leaver Mushrooms Co. Limited.

(b) Inventories –

Barley and malt are valued at the lower of cost on a first-in first-out basis and net realizable value. Operating supplies are valued at cost or less.

(c) Fixed assets –

Land, buildings, plant and equipment are stated at 1955 appraised values plus subsequent additions at cost. Depreciation provisions are computed by the straight-line method at rates based on the estimated useful lives of the depreciable assets.

(d) Income taxes –

Deferred income taxes are provided for all significant timing differences in reporting costs and expenses for financial statement and tax purposes. The timing differences arise principally from differences in depreciation provided in the accounts and depreciation deductible for tax purposes.

(e) Pensions –

Current service costs are charged to operations as they accrue. Unfunded past service costs, amounting to approximately \$1,964,018 at December 31, 1974, are being amortized by annual payments through to 1989.

2. HUGH BAIRD & SONS LIMITED:

The investment in Hugh Baird & Sons Limited (50% owned) is carried at cost and the Company's share of its earnings is taken up only to the extent of dividends received. The equity method of accounting, whereby the equity in the annual earnings of the investee is included in the investor's earnings, has not been applied to the Company's investment in Hugh Baird & Sons Limited since it appears unlikely, under present dividend restrictions in the United Kingdom, that any appreciable portion of the Company's equity in the undistributed earnings of Hugh Baird & Sons Limited will accrue to the Company in the foreseeable future.

The Company's equity in the earnings of Hugh Baird & Sons Limited amounted to \$376,014 for its fiscal year ended July 31, 1974 and dividends of \$65,305, paid at the maximum permissible amount, were received during 1974; the corresponding figures for 1973 were equity in earnings of \$142,262 and dividends received of \$66,662. Since date of acquisition of the investment in Hugh Baird & Sons Limited the Company's accumulated equity in its undistributed earnings amounts to \$850,653.

3. BANK ADVANCES AND BANKERS' ACCEPTANCES:

Bank advances and bankers' acceptances are secured by a general assignment of accounts receivable and a pledge of inventories under Section 88 of the Bank Act.

4. COMMON SHARES:

The Class A and Class B shares are inter-convertible on a share-for-share basis and the rights of each class are identical. Both classes of shares rank equally as to dividends but the Directors may elect to declare and pay a dividend on the Class B shares out of tax-paid undistributed surplus on hand, or out of 1971 capital surplus on hand, provided that a cash dividend is declared and paid on the Class A shares in an amount equal to the sum of the cash dividend on the Class B shares plus the tax paid to create the tax-paid undistributed surplus. Changes in the share capital of the Company during the year were as follows:

	<u>Class A</u>	<u>Class B</u>
Shares issued and outstanding at beginning of year	752,409	111,479
Class B shares converted into Class A (net)	<u>13,746</u>	<u>(13,746)</u>
Shares issued and outstanding at end of year	<u>766,155</u>	<u>97,733</u>

5. RETAINED EARNINGS:

Retained earnings at December 31, 1974 include \$2,080,646 designated as capital surplus under Section 62 of the Canada Corporations Act, arising from the redemption and cancellation of 1,727,776 Series A preferred shares in 1969 and the purchase and the cancellation of 352,870 Series B preferred shares during 1970 and prior years.

6. EXPROPRIATION:

In 1973 the Company received an interim payment of \$5,405,000 from the Federal Government on compensation for the expropriation of its Toronto Bathurst Street property, comprising \$4,700,000 for land and buildings and \$705,000 for disturbance costs. Negotiations have continued throughout 1974 with a view to obtaining additional compensation for the buildings and disturbance costs and to obtaining appropriate compensation for machinery and equipment located on the expropriated premises. Meanwhile, the Toronto Bathurst Street property has been leased from the Federal Government until November 30, 1977 at an annual rental of \$1 with the Company responsible for insurance and other carrying costs.

7. BANK INTEREST:

The interim payment of \$5,405,000 received in 1973 on compensation for the expropriated Toronto Bathurst Street property was applied in reduction of bank advances. Interest income attributable to these funds, as measured by the resulting reduction in bank interest expense, has been presented separately in the consolidated statement of earnings.

8. CAPITAL COMMITMENTS:

Capital expenditures, committed but not expended as at December 31, 1974, amount to approximately \$985,000.

9. REMUNERATION OF DIRECTORS AND OFFICERS:

The remuneration of ten directors amounted to \$27,800 (1973 - \$20,000) and the remuneration of five officers amounted to \$186,511 (1973 - \$184,559). Four of the officers are also directors of the Company.

AUDITORS' REPORT

To the Shareholders of
Canada Malting Co., Limited:

We have examined the consolidated balance sheet of Canada Malting Co., Limited and its subsidiary company as at December 31, 1974 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

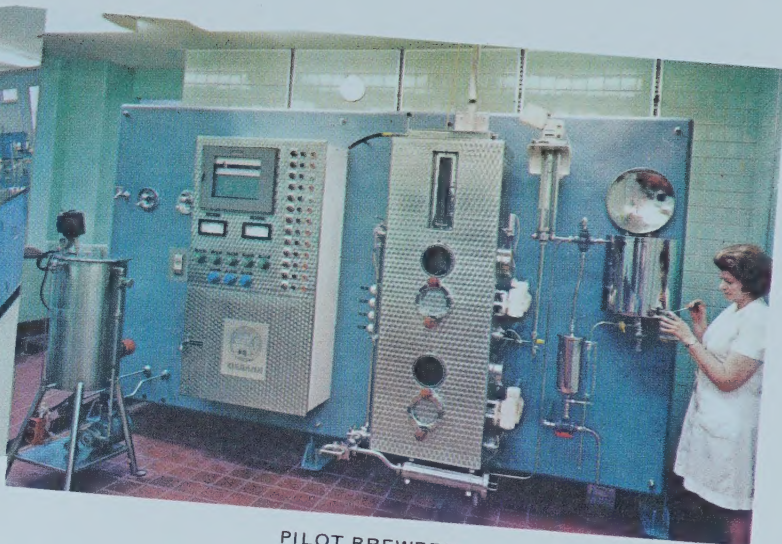
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.
Chartered Accountants.

Toronto, Ontario
February 24, 1975



CONTROL LABORATORY



PILOT BREWERY



ENZYMOLOGY



THE LABORATORY BUILDING



MICROBIOLOGY



PROTEIN



RESEARCH

ERRATA

In the Report of the Directors to the Shareholders, Consolidated Earnings for 1973 should read \$3,190,392 instead of \$3,193,392.

Consolidated Capital Expenditures should read \$3,925,913 instead of \$3,925,413.

